GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:79
ANSWERED ON:16.08.2007
PRICE OF NATURAL GAS
Botcha Lakshmi Smt. Jhansi;Jagannath Dr. M.

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether a Committee constituted by the Ministry has submitted a report on formulating transparent guidelines for approving the natural gas price formula;

(b) if so, the details thereof;

(c) whether the Ministry has accepted the report in toto;

(d) whether the Union Government has received requests from some State Governments particularly from Andhra Pradesh for setting up of a Petroleum Regulatory Authority for regulating the prices of natural gas;

(e) if so, the details thereof; and

(f) the action taken by the Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI MURLI DEORA)

(a) to (f): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (f) OF THE LOK SABHA STARRED QUESTION NO. 79 TO BE ANSWERED ON 16.8.2007 BY DR. M. JAGANNATH AND SHRIMATI BOTCHA JHANSI LAKSHMI, MP REGARDING PRICE OF NATURAL GAS.

(a) & (b): The Production Sharing Contracts (PSCs) provide for pricing of gas on the basis of sale on arms-length basis. The role of the Government is to approve the valuation of gas for the purpose of determining Government take. In order to provide transparency in approving valuations, the Government formed a Committee in August 2006 to formulate guidelines for approving natural gas price formula / basis for giving Government approval under the Production Sharing Contracts.

The Committee was headed by Joint Secretary & Financial Advisor, Ministry of Petroleum & Natural Gas and had Director General, Directorate General Hydrocarbons and concerned Joint Secretaries as other members. The Committee held extensive consultations with various stakeholders, including the producers as well as the consumers, besides other expert organizations, before finalizing its report.

The Committee has recommended that in all situations where a price discovery through competitive bidding is possible, there should be no need to apply any other principle for valuation of gas. Once a market-determined price has been discovered between the suppliers and customers through a transparent competitive bidding process, there should be no need for the Government to interfere with the same.

Further, the Committee has said that in the absence of a market determined price discovered through a transparent bidding process, where valuation of gas has to be necessarily done by Government, it may be done based on the price in the most recent competitively determined contract in the region duly indexed to the present. Indexation is to be done as per provisions of the market determined reference contract, as each market-determined contract sets out various terms and conditions of supply, including the price review mechanism.

The Committee has noted that each contract, normally, has a price review clause every five years. If the price stands reviewed as per the reference contract, that may become the new reference price. For interim periods, the Committee has recommended that indexation may be linked to percentage increase in price of cheapest liquid fuel, i.e., Furnace Oil (FO), which is not only the cheapest liquid fuel but has also shown least price volatility in recent years.

The Committee was of the view that the above valuation may be applied only when actual supply has commenced and the price has not been discovered through the market mechanism. However, if the actual price, at which any producer supplies to any consumer, is higher than the one arrived at by the above methodology, then the higher price is to be reckoned for Government take. It would be ideal if the Committee's approach had never to be applied, but if the eventuality does arise, DG DGH and Director, PPAC will do the

calculations based on Committee's recommendations. It would be DGH's responsibility to ensure that the Producer remits the Government's take accordingly.

(c): Yes, Sir.

(d) & (e): The Chief Minister of Andhra Pradesh has written to the Prime Minister and to Minister for Petroleum & Natural Gas requesting that an independent market regulator be appointed for upstream gas pricing.

(f): The Government has since issued orders for constitution of an Empowered Group of Ministers to consider issues pertaining to pricing of natural gas produced in the country.